

SUCCESS IS THE JOURNEY



H.B. FULLER COMPANY



A JOURNEY TAKES YOU PLACES
YOU NEVER THOUGHT YOU'D GO.



IT EXPANDS YOUR BOUNDARIES,
OPENS YOUR MIND TO
POSSIBILITIES, AND STRETCHES
YOUR IMAGINATION.

SUCCESS IS THE JOURNEY

Without a doubt, H.B. Fuller is today a different organization, a different investment for our shareholders, if you will, than we were five years ago. At the time, we knew we had to change to remain viable in the 21st century, but we hadn't yet begun the process in earnest. Since then, we've been on a journey where every initiative and accomplishment further defines us. We are continually evolving – and that's good. As Charles Darwin said, "It is not the strongest species that survive, nor the most intelligent, but the ones most responsive to change."

In 2002, we demonstrated again that we are a good, solid company,

LETTER
TO

STAKEHOLDERS

one that can hold its own in a challenging environment. We also proved that we are a company responsive to change and adaptable to the forces around us. The successes that we achieved in 2002 showed that we have the potential to be not merely a good company, but a great company. This is where we want our journey to take us. I believe we are on the way.

GROWTH

Throughout 2002, our operating environment, for the most part, remained fairly difficult, which challenged our ability to grow in

Left: Al Stroucken, chairman, president and chief executive officer

many markets. Key regions remained stressed. In Europe, economic conditions went from bad to worse, as bankruptcies and considerable curtailment of public and private spending put a significant damper on growth prospects. In Latin America, political and economic instability created challenges. North America remained sluggish for another year. Asia/Pacific, however, provided a more encouraging situation.

Despite these situations, we turned in very respectable results. With our sales declining only 1.4 percent to \$1.256 billion from \$1.274 billion the prior year, we believe our performance in a contracting market indicated the underlying strength that we have been creating in our company. The successes we have achieved underscore our determination to aggressively push for a superior level of performance. If we can move forward in difficult times, we should excel when economies turn around. Here are a few examples:

In China, a key area of future growth, we increased sales nearly 30 percent – outstanding progress. Despite the odds, we had a good year in Latin America, by adopting a flexible approach that enables us to react quickly to changes. Toward the end of the year we started to grow again at a fairly strong pace. We continue to identify attractive growth opportunities in this region, and we have the talent and experience there to exploit them.

In similar fashion, we achieved strong results in select markets. One example is Nonwoven, where we provide adhesives used in the construction of disposable diapers, feminine care products, adult incontinence devices, and disposable medical garments. In this heavily price-driven market, we not only maintained our position, we grew our business in both the United States and in Europe. You can read more about this particular success on page 11.

Our other adhesives businesses started the year at a slow pace, but were able to improve their position throughout the year, with four of the six markets showing positive sales comparisons in the last quarter.

To help facilitate future sales growth, we undertook an extensive global effort within many of our businesses to top-grade the sales force. We recognize that the sales job, in our current environment and with the changes we have implemented in our company, requires a certain type of skills, along with performance at a premier level if we are to achieve our growth goals. We assessed, and where necessary, rebuilt our sales teams, doing so in a way that would be least disruptive to serving our customers. We expect to complete this transition and begin realizing the results in 2003.

Within our Full-Valu/Specialty group, both Adalis and our Window business showed strong growth. Our Adalis business, formerly known as Linear Products, repositioned itself. Adalis associates took stock of their market, their opportunities, and their brand, and decided to make some radical changes – including renaming the business – to promote growth. They carefully evaluated their situation, and took a sizeable, but calculated risk. It is paying off as we have recently secured our first consulting contracts providing a comprehensive blend of products, services, equipment, knowledge and training in one attractive package. You'll find the details on page 9.

The Window business reinvented itself, introducing innovative products for its marketplace resulting in new customers and ultimately leading to growth for that business in 2002.

Of the successes we achieved in 2002, I am perhaps most proud of our enormous strides in the area of e-business. We decided that we would be a leader in this technology – and then we



IT DEMANDS PERSEVERANCE,
AND REQUIRES COMMITMENT,
COURAGE, AND THE WILLINGNESS
TO PUSH YOURSELF.



focused intensely on digitizing our business. We set measurable, multi-level objectives with aggressive timelines, and we met many of them this year. At the end of 2002, 70 percent of our transactions on the buy-side were being conducted electronically on a global basis. Our progress on the sell-side is a bit slower – not surprisingly since it requires the acceptance by our customers that changing the way we do business with them is beneficial to them as well. Nonetheless, our pace is very encouraging. For instance, within the United States, our adhesives business is now conducting 50 percent of its transactions online. We will continue to push in this area, as well as find new avenues that will exploit the potential of electronic commerce.

PROFITS

With respect to profits, we improved results in several key areas. Net income for 2002 as reported was \$28.2 million, or excluding special items related to our restructuring initiative, \$47.3 million, a 1.9 percent increase over the previous year, excluding special items related to the restructuring and the cumulative effect of a 2001 accounting change. Our return on sales (excluding the restructuring-related charges in 2002 and 2001 and the cumulative effect of an accounting change in 2001) improved from 3.6 percent in 2001 to 3.8 percent, showing progress toward our 5 percent goal.

Our employees did an excellent job of minimizing expenses and maximizing return. Strong cost management is evident at every level throughout the organization, but there are three areas that had noteworthy impact on our results this past year.

Product rationalization. We continued our drive to rationalize our adhesives product line. Over the last two years, we have reduced our portfolio of manufactured products by more than 50 percent,

enabling our operations to run more efficiently. At the same time, we are ensuring that new products introduced are robust, meaning they must have broad applicability.

Strategic sourcing. Raw material prices are, of course, one of the most critical variables in our performance. To help us manage this and our other global procurement expenses, we established 10 strategic sourcing teams. Their efforts resulted in \$12 million of reductions in total cost of ownership for materials and services compared to market price developments.

Manufacturing Restructuring Project. In January 2002, we introduced a major restructuring initiative, the largest component of which related to improving our manufacturing efficiency. Internally code-named Project James, this manufacturing project entailed the closure of 12 facilities in North America and Europe and transfer of related production to other plants. Although a necessary step to improve our capacity utilization and to operate much more efficiently, it was a difficult and complex task because we eliminated jobs. Approximately 250 employees were engaged in 13 teams to ensure a successful transition at all levels – and they did an exceptional job. We expect our annual savings from the total restructuring initiative to be approximately \$10 to \$12 million with the majority of that coming as a result of Project James. You can learn more about Project James on page 7.

Through these initiatives and our other efforts, we have created a company that can operate effectively in today's rapidly changing and uncertain environment. We have also positioned H.B. Fuller to grow. By generating income streams that have allowed us to pay down debt – a reduction of \$51 million in 2002 alone and a total of \$181 million since 1998 – we now have the freedom to finance significantly sized acquisitions, a key component of our growth strategy.

THE JOURNEY FROM GOOD TO GREAT

As a sign of our evolution, we moved the trading of Fuller's stock to the New York Stock Exchange in December. We possess the appropriate mass and a global presence that will benefit from being listed on this exchange, and we believe it will enhance our visibility and provide better trading execution. Additionally, the overwhelming majority of our industry peers trade on the NYSE, rendering this, all in all, a logical step for us to take. You'll find us listed there under the symbol, "FUL."

Our journey has taken us many places over the past five years. It has seen us improve the health of our company, identify and build on our strengths, and look beyond the obvious and familiar for opportunities.

To become a great company, we need to continue developing successes. During the past several years, we've proven our ability to take care of the bottom line; we must now focus intensely on growth. This will not be easy. The desired economic turnaround promises to remain elusive, and the outlook for the chemical and manufacturing sector is very muted. However, I am confident that we can improve sales and generate growth. We have the right strategies for our markets. We have the right products and technologies. Most importantly, we have the right people with an incredible desire to excel. Watch us as we continue on our journey in 2003. Thank you for your ongoing support.



Albert P.L. Stroucken
Chairman of the Board,
President and Chief Executive Officer





PROJECT JAMES



EVERY DAY,
YOU MUST REAFFIRM YOUR GOALS,
FACE AND MAKE THE
TOUGH DECISIONS,
AND KEEP MOVING FORWARD.

PROJECT JAMES: ON TIME AND UNDER BUDGET

Project James, H.B. Fuller's restructuring effort to eliminate excess manufacturing capacity and improve cost-effectiveness, was a significant step in the company's journey to achieving operational excellence. A wide-reaching and complex endeavor, it extended into three regions of the world, involved several hundred people, and included a multitude of tasks to complete in less than a year. Together with other restructuring activities, it will result in annualized savings in the range of \$10 to \$12 million and significant improvements to overall return on capital.

Prior to Project James, Fuller's manufacturing facilities were operating at less than optimal capacity utilization, explains Rick Peppin, project manager. "Project James leveraged the work and achievements that have come out of our strategic sourcing and product consolidation teams. The 12 plant closures, which were completed by the end of the fourth quarter, were the next logical step to improving our cost structures and operational performance. With a reduced raw material base and a more robust product line, we can now produce more efficiently and cost-effectively."

The cost of our restructuring initiative, including Project James, will amount to approximately \$35 million, with another \$12 million invested in equipment and infrastructure for the plants that

Top, from left: Project James team leaders Bonnie Nord, Michelle Goodman, Todd Trushenski and Mary Helen Bosquez.

Bottom: Rick Peppin, Project James project manager

expanded to take on the production from the closed facilities. "With all that had to be accomplished, this was clearly an aggressive timeline. The project's steering committee challenged the teams to cut the proposed implementation time in half, and to the credit of all involved, we are executing and delivering the project on time and under budget."

The project included the divestiture of product lines that were no longer considered a strategic fit. More than 5 percent of H.B. Fuller's work force dedicated significant amounts of time to the engineering, technical, customer management and organizational details of the closings.

Each closing facility had a cross-functional team staffed with people knowledgeable in systems and business processes, and each step in the customer supply chain was taken into consideration.

"One of the biggest challenges and compromises we had to make was the fact that through this project we had to lay off colleagues. Letting go of people who have had long careers and strong affiliations with H.B. Fuller is a very hard and painful process; however, the sacrifices made are now the basis for a much healthier cost structure, and they will improve our competitiveness in the marketplace," says Peppin. "In addition, we proved to the entire organization that we could achieve a truly global project in a time frame no one thought possible. It shows we have the right people on board for our journey and that we can make things happen."





REMEMBER WHERE YOU'VE BEEN.
RESPECT HISTORY,
BUT DON'T BE AFRAID
TO LEAVE THE PAST BEHIND.



ADALIS



A NEW NAME – AND A NEW DIRECTION

A new identity – and a new path for growth. In 2002, H.B. Fuller's former Linear Products business, headquartered in Vancouver, Wash., underwent a transformation. Seeking a stronger identity through a new brand, the management team redefined its strategy and in June, launched Adalis, an innovation and technology company. Their instincts and tactics were on the mark, as sales increased for the year.

As Linear Products, the subsidiary manufactured products that create reinforcement and easy-open features for corrugated and folding carton packaging, plus hot melt adhesives and strings and tapes for veneer composing. As Adalis, it is marketing total solutions. This means not just a product, but an integrated package of offerings: products, services, equipment, knowledge, technology, and training. In other words, Adalis uses a new consultative approach that delivers innovative, value-added solutions to the customer.

Adalis is extending the brand through the value chain. "We have long recognized that our direct customers don't always have control over the projects and applications of our products, and neither do we. Control often rests with our customer's customer," says Joe Renzetti, Adalis president. "We realized we needed to go the extra step to reach consumer goods manufacturers and work with them directly to add value and contribute to the end result."

Business has grown through consulting with consumer goods manufacturers. A good example is the new Adalis™ Surprise Tape® program, a consumer marketing tool that integrates customized

promotional messages into the package and results in dramatically increased sales for the customer. In addition, growth has come from geographic expansion into new markets.

The new brand provides opportunities not otherwise possible, continues Renzetti. "It's interesting to see how some of our people in the field will try innovative approaches simply because we're now Adalis. They will say, 'That's the way we do it at Adalis.' Because of our new identity, our new approach, nothing is really out of bounds."

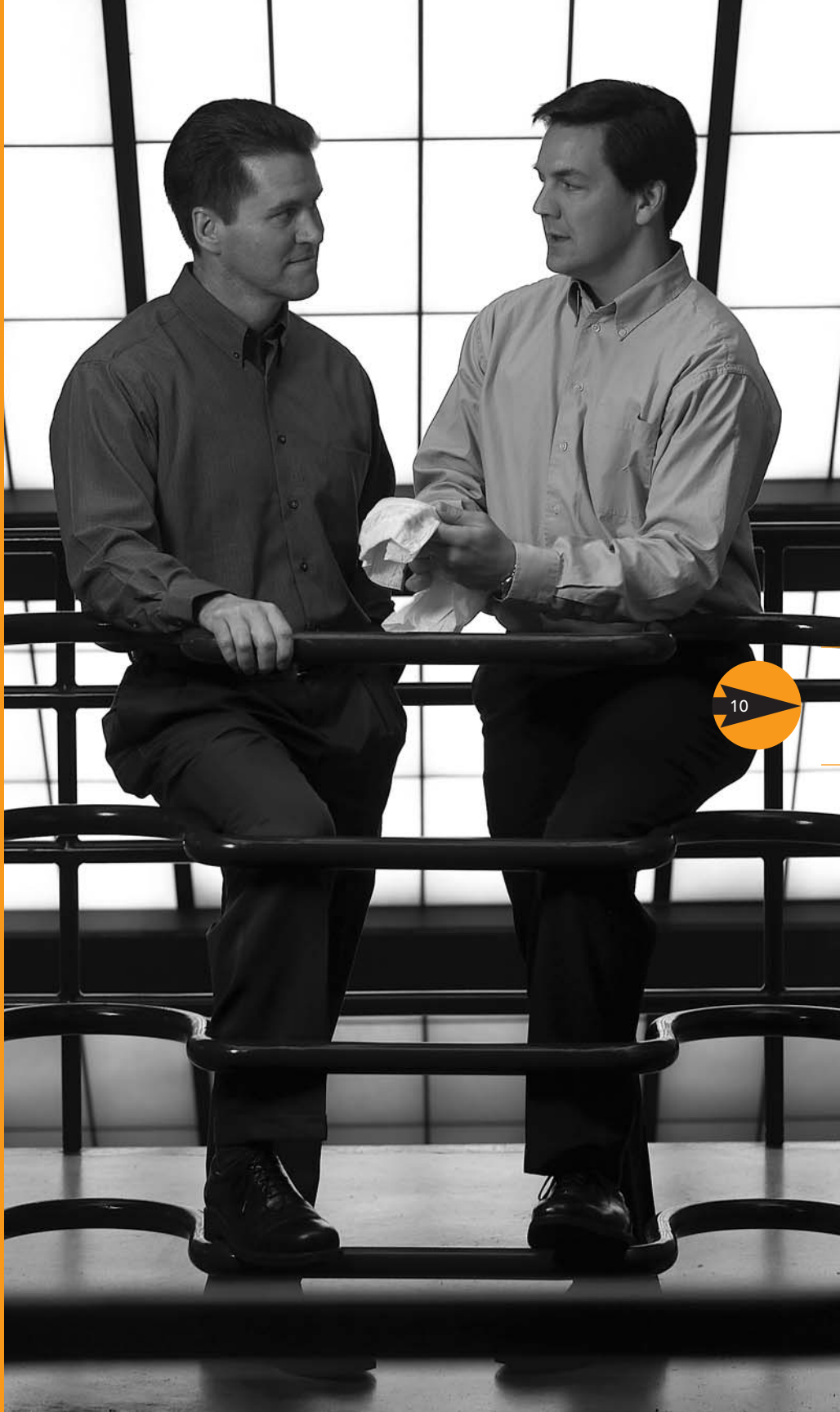
To create the Adalis image, a strategic analysis was conducted to examine the business, its competition, and its customers. A small team was able to make quick decisions and move forward in a condensed time to develop the Adalis brand identity, promise, platform, key messages, name, logo, tag line, and, finally, a strategic implementation plan.

After introducing the redefined business to the marketplace, customers and clients began to change their perception of Adalis. Within six months, Adalis had completed three consulting engagements and had several more proposals presented to customers.

"It's been quite a journey in a short period of time," says Renzetti. "We have been successful so far, but throughout our team, there is recognition that we're just beginning and there is a long way to go. By identifying ourselves as a consulting business, it has forced us to make a change and take the first steps toward more success in the future. I'm quite pleased with our progress so far."

Clockwise from left: Adalis leaders Ken Wallberg, Sharon Nelson and Joe Renzetti





NONWOVEN

SURROUND YOURSELF WITH THE BEST
PEOPLE
IDEAS
ATTITUDES.
REMEMBER: SUCCESS IS THE JOURNEY.

NONWOVEN BUSINESS ACCELERATES IN 2002

For H.B. Fuller's Nonwoven strategic business unit, or SBU, 2002 was a year where, like a racecar, the business kept gathering momentum. The SBU increased sales by more than 7 percent, surpassing its own expectations; reduced expenses as a percent of sales, and improved operating income over the previous year.

These successes were preceded by a slowdown that began in the late '90s. The nonwoven market, which encompasses disposable diapers and adult incontinence and feminine hygiene products, typically grows a nominal 1 to 2 percent annually, but between 1997 and 2001 Nonwoven's sales actually declined. During that four-year period, downward pressure on both prices and volume contributed to the slide. Fuller's challenge was to increase its competitiveness and, as a result, profitably take market share away from its competitors.

H.B. Fuller's strategy included optimizing the product line, explains Gordon Little, global Nonwoven SBU manager. "That didn't mean simply reducing the number of products we sell, but rather eliminating the least valuable ones and minimizing our unit costs on the rest – without sacrificing performance for our customers.

"Also, when customers evaluated Fuller products, we wanted to be able to show them, in a quantifiable way, that we provide the lowest cost-of-use adhesives that they can find."

The Nonwoven group focused on presenting a revitalized low-cost, high-performance product line. Additionally, development efforts centered on creating products with multi-functionality. Among them is a patented new technology called Hydrolock™, a spray-applied, absorbent hot melt unlike anything now used by the industry. "We've garnered a lot of interest in the industry and pushing this forward into the future is going to be a key to our success as well," says Little.

People are the drivers of Nonwoven's successful track record, says Little. "With 500 collective years of industry experience, our employees know the business, the market, the customers, the products, and the applications. They are leading the way with new developments that expand our offerings and allow us to provide more than just commodity adhesives to our customers. I believe if you were to ask any of them who leads the way in technology partnerships in our marketplace, it's H.B. Fuller."

From left: Nonwoven managers Chris Olson, Steve Jorrisen and Gordon Little.



H.B. Fuller

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